

Message Text

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16

ORIGIN NEA-12

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-09 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 SAL-01 OMB-01 INT-08 L-03 AGR-20 NSC-10

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FM SECSTATE WASHDC

TO AMEMBASSY NEW DELHI

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

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E. O. 11652, N/ A

TAGS: ETRD, BPRO, IN

SUBJ: MONSANTO INVESTMENT INTEREST IN INDIA

1. BEGIN SUMMARY: PETER KARLOW, WASHINGTON- BASED INTERNATIONAL ADVISOR, MONSANTO COMPANY, CALLED ON INDIA COUNTRY DIRECTOR MARCH 13 FOR ADVICE ON PROCEEDING WITH TWO MONSANTO INVESTMENT PROJECTS IN INDIA. MONSANTO SEEKS WAYS TO OBTAIN UP TO DOLS 8 MILLION IN LOCAL CURRENCY WITHOUT PROVIDING GOI FINANCIAL INSTITUTIONS WITH RIGHT CONVERT LOANS TO EQUITY. ACTION REQUESTED: ANY ADVICE MISSION MAY HAVE, INCLUDING SPECIFICALLY, COMMENT RE FUTURE AVAILABILITY COOLEY LOANS. END SUMMARY

2. KARLOW EXPLAINED MONSANTO HAS BEEN GRANTED NECESSARY
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GOI LETTERS OF INTENT TO PRODUCE: (1) CHEMICAL FOR CURING RUBBER; AND (2) HERBICIDE APPLICABLE TO HYV RICE. KEY NEXT STEP IS BORROWING UP TO DOLS 8 MILLION EQUIVALENT LOCALLY, IDEALLY BY COOLEY LOAN, FOR RUBBER CHEMICAL PROJECT. ACCORDING RATIONALE PREPARED BY MONSANTO OFFICIALS FOR USE WITH GOI, AS WELL USG:

(A) MONSANTO WAS GRANTED GOI LETTER OF INTENT FOR THE MANUFACTURE OF RUBBER CHEMICALS AND GOI HAS APPROVED TERMS OF COLLABORATION FOR RUBBER CHEMICAL PROJECT. ACCORDINGLY, MONSANTO FORMING NEW PUBLIC COMPANY WITH MONSANTO HOLDING 40 PERCENT EQUITY AND BALANCE WIDELY

HELD BY INDIAN INVESTING PUBLIC. PLANT SITE HAS BEEN OBTAINED AND LOCAL ENGINEERING AND PROCUREMENT IS ABOUT TO START. ACTUAL FIELD WORK WILL COMMENCE AFTER MONSOON - SEPTEMBER.

(B) EQUITY CONTRIBUTIONS BY SHAREHOLDERS OF NEW INDIAN COMPANY REPRESENT A PORTION OF FINANCES REQUIRED FOR THIS MAJOR PROJECT. BALANCE OF SOME DOLS 8 MILLION IN RUPEES MUST COME FROM OTHER LOCAL SOURCES. MAJOR SOURCES COULD BE THE VARIOUS INDIAN FINANCIAL INSTITUTIONS AND/ OR COOLEY LOAN. INDIAN FINANCIAL INSTITUTIONS HAVE ADEQUATE FUNDS AVAILABLE AND ARE INTERESTED IN PROVIDING THE TERM LOANS REQUIRED. HOWEVER, THEIR LOAN AGREEMENTS CONTAIN NON- NEGOTIABLE CONDITION GIVING THEM UNILATERAL RIGHT CONVERT PORTION OF TERM DEBT INTO EQUITY. MONSANTO HOLDS THAT FOR VARIETY OF SOUND BUSINESS REASONS, THIS IS NOT IN BEST INTEREST OF ALL STOCKHOLDERS - INDIAN AS WELL AS MONSANTO. MONSANTO NOT/ NOT TRYING AVOID ANY GOI PARTICIPATION IN THIS NEW COMPANY. IN FACT, IT LIKELY GOI INSTITUTIONS WILL SUBSCRIBE TO PORTION OF STOCK ISSUE OFFERED INDIAN PUBLIC. USE COOLEY FUNDS DOES NOT/ NOT ENTAIL SUCH DEBT CONVERSION CONDITIONS. THEREFORE, MONSANTO WANTS EMPLOY SUCH FUNDS TO MAXIMUM EXTENT POSSIBLE.

(C) MONSANTO ARGUES THIS PROJECT REPRESENTS COMMITMENT AND EXPRESSION OF CONFIDENCE AND FAITH ON PART MONSANTO IN INDIA. THIS PARTICULAR PROJECT WOULD MAKE INDIA SELF- SUFFICIENT IN RUBBER CHEMICALS AND IS ALSO LIMITED OFFICIAL USE

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DESIGNED GENERATE NON- TRADITIONAL EXPORTS FOR INDIA.

(D) MONSANTO ACTIVELY CONSIDERING OTHER MAJOR INVESTMENT PROJECTS FOR INDIA. ITS ABILITY AND WILLINGNESS TO IMPLEMENT THEM WILL DEPEND TO LARGE EXTENT ON ITS EXPERIENCE WITH THIS FIRST CHEMICAL PROJECT. IT WOULD, THEREFORE, SEEM TO BE ADVANTAGEOUS TO MONSANTO AND TO INDIA TO UTILIZE COOLEY FUNDS FOR PORTION OF THE REQUIRED FINANCING NOT ONLY FOR THE IMMEDIATE PROJECT BUT TO HELP ENSURE MONSANTO'S INTEREST IN FUTURE TECHNICALLY SOPHISTICATED PROJECTS IN INDIA.

3. KARLOW EXPLAINED FURTHER THAT MONSANTO SEES BOTH PROJECTS, ALTHOUGH APPROVED BY SEPARATE GOI MINISTRIES, AS LINKED IN THAT INVESTMENT IN HERBICIDE (AND POTENTIAL INVESTMENT IN LOCAL MANUFACTURE OTHER CHEMICAL PRODUCTS) UNATTRACTIVE IF RUBBER CHEMICAL PLANT NOT/ NOT SUCCESSFUL. KARLOW SPECIFICALLY ASKED OUR ADVICE AS TO WHAT INFLUENCE MONSANTO OR USG MIGHT BRING BEAR TO ASSIST MONSANTO TO OBTAIN UNRESTRICTED RUPEE FUNDS. KARLOW NOTED THAT

INDIAN TIRE COMPANIES HAD SPECIFICALLY SOUGHT GOI APPROVAL OF DOMESTIC PRODUCTION RUBBER CHEMICAL AND THAT HERBICIDE COULD MAKE VERY SIGNIFICANT IMPACT ON HYV RICE PRODUCTION, THUS WOULD BE HIGHLY DESIRABLE AGRO- INDUSTRY FOR INDIA.

4. MONSANTO HAS APPLIED FOR COOLEY LOAN AND OPIC INFORMS US MISSION HAD ALLOCATED AN ESTIMATED RS. 10 MILLION FOR SUCH LOAN, BUT LOAN APPLICATION, OF COURSE, STILL PENDING. EXPERIENCE IN OTHER SIMILAR SITUATIONS SUGGESTS GOI MAY BE MOST RELUCTANT APPROVE COOLEY LOAN TO ENABLE BORROWER AVOID GIVING INDIAN INSTITUTIONS RIGHT CONVERT LOANS TO EQUITY.

5. IN RESPONSE KARLOW QUESTIONS, DEPTOFFS DESCRIBED IN GENERAL TERMS CURRENT STATE INDO- US ECONOMIC RELATIONS AND SPECIFIC FACT GOI HAS NOT RPT NOT APPROVED ANY NEW COOLEY LOANS SINCE INSTITUTING GENERAL REVIEW US RUPEE PROGRAMS IN MID-1972. WE HAVE SPECIFICALLY SUGGESTED MONSANTO:

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(A) SEEK AVOID ANY FINAL DECISION FOR NEXT SEVERAL MONTHS; AND

(B) HAVE INDIA REPRESENTATIVE DISCUSS PROBLEM FURTHER BOTH WITH MISSION COOLEY LOAN OFFICER AND COMMERCIAL

COUNSELOR.

6. WE HAVE ALSO SUGGESTED THAT EMBASSY/ MISSION MIGHT
HAVE FIRST- HAND READING OF COOLEY LOAN SITUATION OR
SPECIFIC ADVICE NOT/ NOT AVAILABLE OR OFFERED HERE.
ACTION REQUESTED: ANY EMBASSY COMMENTS OR ADVICE WHICH
MIGHT ASSIST MONSANTO IN OBTAINING RUPEE FUNDS WITHOUT
EQUITY CONVERSION CONDITION. ROGERS

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*** Current Classification *** LIMITED OFFICIAL USE

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